

**CITY OF FRANKLIN**  
**NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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The accompanying summary of the City of Franklin's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be reviewed as an integral part of the accompanying financial statements. The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. A summary of the significant accounting policies follows:

**A. REPORTING ENTITY**

This report includes all of the funds of the City of Franklin. The reporting entity for the City consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

**Discretely Presented Component Unit**

The Community Development Authority of the City of Franklin (Authority) is included in the government-wide financial statements as a component unit. The Authority is a legally separate organization. The Authority is governed by a seven member board appointed by the Mayor and confirmed by the Common Council. As a component unit, the Authority's financial statements are presented as a discrete column in the City's financial statements. The City is financially accountable for the Authority due to the municipal lease revenue obligation of the City that supports the lease revenue bonds issued by the Authority. Separate financial statements are not published for the Authority. The Authority follows the accounting policies of the City.

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

##### **Government-Wide Financial Statements**

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business type activities. Governmental activities generally are financed through taxes, intergovernmental revenue and other nonexchange revenue. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services provided. The primary government is reported separately from a legally separate component unit that the primary government is financially accountable.

The statement of activities demonstrates the degree that direct expenses of a given segment or function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate indirect expenses to functions in the statement of activities.

Program revenue includes 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenue are reported as general revenue. Internally dedicated resources are reported as general revenue rather than as program revenue.

##### **Fund Financial Statements**

Financial statements of the reporting entity are organized into funds with a fund considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, net assets/fund equity, revenue and expenditures/expenses.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds even though the latter is excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)**

Funds are organized as major funds or non-major funds within the governmental and proprietary fund statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the city or meets the following criteria:

- a. Total assets, liabilities, revenue, or expenditures of that individual governmental or propriety fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b. The same element of the individual governmental fund or propriety fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental and propriety funds combined.
- c. In addition, any other governmental or propriety fund that the city believes is important to financial statement users may be reported as a major fund.

#### **Major Governmental Funds**

General Fund – accounts for the City's primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – accounts for resource accumulation from taxes, special assessments and other revenue along with payments made for principal and interest on long-term debt other than CDA or proprietary fund debt.

#### **Major Enterprise Funds**

Water Utility Fund – accounts for operations of providing water services to City residents and bills for those services.

Sanitary Sewer Fund – accounts for the operations of providing sanitary sewer services for City residents and bills for those services.

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)**

In addition the City reports:

##### **Non-Major Governmental Funds**

Special Revenue Funds – account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The funds include Library, Economic Development, Donations, Civic Celebrations and Grants.

Capital Projects Funds – account for resources accumulated to be used for the purchase of equipment, street replacement, acquisition of land and the construction of capital improvement projects. The funds include Capital Outlay, Equipment Replacement, Capital Improvement, Street Improvement, Utility Improvement and Development.

##### **Other Fund Types**

Internal Service funds – to account for the payment of group health and dental charges for services and stop loss insurance charges by the City and the billing of departments or agencies of the City on a cost-reimbursement basis for the services received.

Agency funds – to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and /or governmental units. The agency funds include a property tax fund and other agency funds.

#### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

##### **Government-Wide Financial Statements**

The government-wide statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when earned and expenditures are recorded when the liability is incurred or economic asset used. Revenue, expenditures, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenue in the year that they are levied.

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (continued)**

##### **Government-Wide Financial Statements (continued)**

Taxes receivable for the following year are recorded as receivables and deferred revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenue when services are performed.

The business-type activities follow all pronouncements of the Governmental Accounting Standards Board and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water utility and sanitary sewer fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

##### **Fund Financial Statements**

Governmental fund financial statements are reported using the current resources measurement focus and the modified accrual basis of accounting. Revenue is recorded when it is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the city considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgements, compensated absences and pension expenditures which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded in the year levied as receivable and deferred revenue and are recognized as revenue in the succeeding year when services financed by the levy are provided.

Intergovernmental aids and grants are recognized as revenue in the period the city is entitled to the resources and the amounts are available. Amounts owed to the City that are not available are recorded as receivables and deferred revenue. Amounts received prior to the entitlement period are recorded as deferred revenue.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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#### C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (continued)

##### FUND FINANCIAL STATEMENTS (continued)

Special assessments levied for benefits to property owners for installation of sanitary sewers, water mains, roads, and other improvements are recorded as revenue when they become measurable and available. Annual installments due in future years are recorded as receivables and deferred revenue.

Revenue susceptible to accrual include property taxes, room taxes, public charges for services, permits and interest. Other general revenue such as fines and forfeitures, licenses and miscellaneous revenue are recognized when received or when measurable and available under the criteria mentioned above.

Deferred revenue is reported on the governmental funds balance sheet. Deferred revenue arises from taxes levied in the current year that are for subsequent year's operations. For governmental funds financial statements deferred revenue arises where potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received before the city has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the city has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency fund financial statements are reported using the accrual basis of accounting.

The Enterprise funds follow all pronouncements of the Governmental Accounting Standards Board and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989. Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal operations. The principal operating revenue of the water and sanitary sewer funds are charges to customers for sales and services provided. The rates billed in the water utility are approved by the Public Service Commission. Sanitary sewer charges are billed at rates established by City policy based on the charges received from the Milwaukee Metropolitan Sewage District.

Operating expenses for Proprietary funds include the cost of sales and services, administration and depreciation on capital assets. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (continued)**

##### **All Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenditures/ expenses during the reporting period. Actual results could vary from those estimates.

#### **D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY**

##### **1. Deposits and Investments**

For purposes of the statement of cash flows, the city considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investment of city funds are restricted by state statutes. Investments are limited to:

1. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
2. Bonds or securities issued or guaranteed as to principal and interest by the federal government, or by a commission, board or other instrumentality of the federal government.
3. Bonds or securities of any county, city, drainage district, technical college district, local exposition district, local professional baseball park district, local professional football stadium district, cultural arts district, village, town or school district of the State of Wisconsin and University of Wisconsin Hospitals and Clinics Authority.
4. The Local Government Investment Pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category assigned of a nationally recognized rating agency.
6. Securities of an open-ended management investment company or investment trust subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated based on average investment balances.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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#### D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

##### 1. Deposits and Investments (continued)

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw funds in total on one day's notice. At December 31, 2004, the fair value of the City's share of LGIP's assets was substantially equal to the amount reported in these statements.

##### 2. Receivables

Property taxes are levied in December on the assessed value as of the prior January 1. In addition to property taxes for the municipality, taxes are collected for and remitted to the State government, County government, local school districts, technical college district and metropolitan sewerage district. Taxes for all State and other local governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units on the accompanying agency fund balance sheet.

Property tax calendar – 2004 tax roll:

Lien date and levy date	December 2004
Tax bills mailed	December 2004
Payment in full, or	January 31, 2005
First installment due	January 31, 2005
Second installment due	March 31, 2005
Third installment due	May 31, 2005
Personal property taxes in full	January 31, 2005
Final tax settlement with County	August 15, 2005
Tax deed by County – 2004	
Delinquent real estate taxes	October 2007

Accounts receivable have been shown net of an allowance for uncollectible accounts. Delinquent real estate taxes as of July 31 are paid in full by the county, which assumes the collection thereof. No provision for uncollectible accounts receivable has been made for the city and utility because of their right by law to place delinquent bills on the tax roll.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds". Long term interfund loans (non-current portion) are reported as "advances from and to other funds". Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets. Any residual balances outstanding between the governmental activities and the proprietary activities are reported in the government-wide financial statements as "internal balances".



# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)**

##### **2. Receivables (continued)**

In the governmental fund financial statements, advances to other funds are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

##### **3. Inventories and Prepaid Items**

Governmental fund inventory items, except fuel inventory, are charged to expenditures when purchased. The fuel inventory is recorded at cost on a first in first out basis using the consumption method of accounting. Year end inventory was not significant. Proprietary fund inventories are generally used for construction and for operation and maintenance work. They are not for sale. Material and supplies on hand at year end are considered immaterial.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

##### **4. Restricted Assets**

Mandatory segregation of assets are presented as restricted assets. Such segregation is required by bond agreements and other external parties. Current liabilities payable from restricted assets are so classified. The excess of restricted assets over current liabilities will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net assets.

##### **5. Capital Assets**

###### **Government-Wide Statements**

In the government-wide financial statements, capital assets are accounted for as assets. Capital assets are defined by the government as assets with an initial cost of more than \$1,000 for general capital assets and \$10,000 for infrastructure assets and an estimated useful life of three years or more. All capital assets are recorded at historical cost or at estimated historical cost if actual amounts are not available.

Donated capital assets are recorded at their estimated fair value at the date of donation.

Prior to January 2003, infrastructure assets of governmental funds were not capitalized. Upon implementing GASB 34 governmental units are required to account for all capital assets, including infrastructure, in the government-wide statements prospectively from the date of implementation.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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#### D. Assets, Liabilities and Net Assets or Equity (continued)

#### 5. Capital Assets (continued)

##### Government-Wide Statements (continued)

Retroactive reporting of all major general infrastructure assets is encouraged but not required until January 1, 2007 when GASB 34 requires the City to retroactively report all major general infrastructure assets acquired since January 1, 1980. For the year ended December 31, 2004, the City has not retroactively reported all network infrastructure acquired by its governmental fund types.

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest from temporary investment of borrowed fund proceeds. No net interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of useful lives by asset type of follows:

Buildings and improvements	20-50 Years
Machinery and Equipment	5-30 Years
Water and sewer systems	20-100 Years
Infrastructure	30-90 Years

##### Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same in the government-wide statements.

#### 6. Other Assets

In governmental funds, debt issuance costs are recognized as expenditures in the current period. For the government-wide and proprietary fund type financial statements, debt issuance costs are deferred and amortized over the term of the debt issue.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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#### D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

##### 7. Compensated Absences

Under terms of employment, employees may earn compensatory time and are granted sick leave, severance pay and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested compensatory time, sick leave, severance pay and vacation pay are accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements and are payable with expendable available resources.

Payments for vested compensatory time, sick leave, severance pay and vacation pay will be made at rates in effect when the benefits are used. Accumulated vested compensatory time, sick leave, severance pay and vacation pay liabilities are determined on the basis of current salary rates and include salary related payments.

The city also provides postemployment health and dental care benefits for all eligible employees. Eligibility and benefit levels are based on contractual agreements with employee groups, City ordinances and employee benefit policies. Some employees may leave their accumulated severance to pay for their portion of health care premiums. The City contribution to postretirement health care is 75% of the year of retirement premium cost with the employee paying any balance due plus the cost of any dental benefit selected. The City's portion of health care cost is recognized as expenditure in the period premiums are paid. Funding for those costs is provided out of the current operating budget of the city. The contributions are financed on a pay as you go basis.

##### 8. Long-term Obligations/Conduit Debt

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of notes and bonds payable and accrued compensated absences.

Long-term Obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debt (plus any premium) is reported as other financing sources and payments of principal and interest are reported as expenditures. The proprietary fund accounting is the same as it is in the government-wide statements.

The City has approved issuance of industrial development revenue bonds (IDRB) for the benefit of private business enterprises. IDRB's are secured by mortgages or revenue agreements on associated projects and do not constitute indebtedness of the city. Accordingly, bonds are not reported as liabilities in the financial statements.

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)**

##### **9. Claims and Judgments**

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the government funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in governmental fund financial statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

##### **10. Equity Classifications**

###### **Government-Wide Statements**

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources, as they are needed.

###### **Fund Statements**

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled "designated". The balance of unreserved fund balance is labeled "undesignated", which indicates it is available for appropriation. Proprietary fund equity is classified the same as in the government-wide statements.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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#### D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

##### 11. Comparative data/reclassifications

The basic financial statements include comparative data for the prior year for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in financial position and operations of these funds. This comparative data is not at the level of detail required for a presentation in conformity with general accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2003, from which the data was derived.

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### NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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#### A. Explanation of Certain differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "other long term assets that are not available to pay for current period expenditures and therefore are deferred in the funds". The details of this difference are as follows:

Special Assessments	<u>\$3,804,886</u>
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Capital Assets used in government funds are not financial resources and, therefore, are not reported in the funds.

Land	\$4,777,991
Buildings	21,190,277
Machinery and Equipment	11,482,674
Infrastructure	8,323,261
Less: Accumulated depreciation	<u>(10,573,537)</u>
Adjustment for Capital assets	<u>\$35,200,666</u>

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term-are reported in the statement of net assets.

Bonds and notes payable	\$24,800,000
Compensated absences	1,145,679
Accrued Interest	<u>346,331</u>
Combined Adjustment for long-term liabilities	<u>\$26,292,010</u>

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

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#### B. Explanation of Certain differences between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government wide statement of activities. One element of that reconciliation explains that 'revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the funds'. The details of this difference are as follows:

Special assessment levies	<u>\$1,060,383</u>
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Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, notes) provides current financial resources to governmental fund, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets". The details of this difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds and notes	\$ -
Principal repayments:	
General obligation debt	<u>4,000,000</u>
Net adjustment to decrease net changes	
In fund balances – total governmental	
Funds to arrive at changes in net	
Assets of governmental activities	<u>\$4,000,000</u>

Another element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds". The details of this difference are as follows:

Compensated absences	\$57,839
Accrued interest	<u>(58,146)</u>
Net adjustments to increase net changes in	
fund balances – total governmental funds	
to arrive at changes in net assets of	
governmental activities	<u>\$(307)</u>

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

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#### B. Explanation of Certain differences between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (continued)

Another element of that reconciliation states that "revenue in the governmental funds that provides current financial resources but have been previously recorded as revenue in the statement of activities". The details of this difference are as follows:

Special assessment collections	<u>\$1,175,364</u>
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### NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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#### A. BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1 C with the exception of encumbrances and tax equivalent from the water utility. Actual (Budgetary basis) expenditures presented reflect actual (GAAP) expenditures adjusted for expenditures liquidated under the prior period budget and encumbrances expected to be liquidated under the current period budget. Actual (budgetary basis) revenue present the tax equivalent from the water utility as tax revenue while the GAAP basis statements present this item as a transfer in.

A budget has been adopted for the general, debt service, library, capital outlay, equipment replacement, capital improvement, street improvement, sanitary sewer and water utility funds. Budgets have not been formally adopted for other funds.

The budgeted amounts presented include any amendments made during the year. The City may authorize transfers of budgeted amounts within departments. Transfers between departments and changes to the overall budget must be approved by a two-thirds vote of the common council. Supplemental appropriations during the year were not significant. Appropriations lapse at the end of the year unless specifically carried over. Carryovers to the following year were not material. Budgets are adopted at the function level of expenditure.

#### B. EXCESS EXPENDITURES OVER APPROPRIATIONS

The City controls expenditures at the function level (e.g. public safety). Some departments within functions experienced expenditures that exceeded departmental appropriations. Details of those items can be found in the budget to actual report on Schedule 4.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 4 - DETAILED NOTES ON ALL FUNDS

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#### A. CASH AND INVESTMENTS

Cash and investment balances as disclosed on the accompanying financial statements are comprised of the following:

Petty cash	\$ 2,400
Carrying amount of deposits	46,002,100
Carrying amount of investments	<u>11,086,045</u>
	<u>\$ 57,090,545</u>

Cash and investment balances disclosed herein include those of the Authority, which are an integral part of the pooled cash and investments of the City. Reconciliation to the financial statements:

Primary Government:	
Unrestricted cash and investments	\$ 16,997,469
Restricted cash and investments	132,035
Component Unit	
Unrestricted cash and investments	370,686
Per Statement of Fiduciary Net Assets	<u>39,590,355</u>
	<u>\$ 57,090,545</u>

At year-end, the carrying amount of the City's deposits was \$46,002,100 and the bank balance was \$35,365,979. Deposits in each bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for non-interest bearing accounts. The bank balance covered by federal depository insurance was \$430,384.

Of the remaining balance, \$29,996,775 was collateralized with securities held by the pledging financial institution's trust department or agent in the city's name and \$4,938,820 was uninsured and uncollateralized. The City's deposits are also insured in the amount of \$400,000 by the State of Wisconsin Deposit Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to the City. This coverage has not been considered in computing the insured or collateralized amounts above.

The city's investments are categorized to give an indication of the level of custodial credit risk assumed by the city at year end. Category 1 includes investments that are insured or registered or which are collateralized by or evidenced by securities held by the City or its agent in the City's name.



# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

#### A. CASH AND INVESTMENTS (continued)

Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the City's name, or uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the City's name. Category 3 includes uncollateralized deposits, and uninsured and unregistered investments with securities held by the counterparty, or by its trust department or agent but not in the City's name.

	Category			Carrying Amount/ Fair Value
	1	2	3	
U.S. Treasury securities	\$ -	\$ -	\$ 494,186	\$ 494,186
U.S. Agency securities	-	-	6,631,732	6,631,732
Corporate notes	-	-	968,150	968,150
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,094,068</u>	8,094,068
Investment in Wisconsin Local Government Investment Pool				2,169,235
U.S. Government Money Market Funds				<u>822,742</u>
				<u>\$ 11,086,045</u>

Investments in the local government investment pool are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the pool except U.S. Government and agency securities. The bond provides unlimited coverage on principal losses, reduced by any FDIC and State of Wisconsin Guarantee Fund insurance.

The City is exposed to market risk through its participation in the Wisconsin Local Government Investment Pool and both market and credit risk through ownership of U.S. Treasury and Agency securities and corporate notes. There were no violations of legal provisions regarding deposits and investments.

Fluctuating cash flows during the year due to the timing of receipt of tax collections, other revenue, and/or proceeds from borrowing sources may result in uninsured balances varying from the amounts reported at year end.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

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#### B. RECEIVABLES

Receivables consist of accounts, taxes and special assessments from citizens and others. Receivables are reported net of uncollectible amounts. The reserve for bad debts, principally for personal property taxes and a general valuation allowance, was \$37,130 at December 31, 2004. Other than special assessment receivables all other receivables are expected to be collected within one year.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Property taxes receivable for the subsequent year are not earned and can not be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred and unearned revenue reported in the financial statements were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Governmental Funds:			
Property taxes receivable	\$ -	\$ 16,942,487	\$ 16,942,487
Special assessments not yet due	<u>3,804,886</u>	<u>-</u>	<u>3,804,886</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 3,804,886</u>	<u>\$ 16,942,487</u>	<u>\$ 20,747,373</u>
Component Unit:			
Tax increment receivable	<u>\$ -</u>	<u>\$ 2,925,386</u>	<u>\$ 2,925,386</u>

#### C. RESTRICTED ASSETS

##### Sewer Equipment Replacement Account

In accordance with the City's ordinance enacting a sewer user charge system and regulations of the Department of Natural Resources, the Sanitary Sewer Fund – an Enterprise Fund, incorporated an equipment replacement charge as a component of the rate structure to be used for significant mechanical equipment replacement as required by the Wisconsin Department of Natural Resources. Revenue generated from this charge are accumulated and used for replacement of certain equipment. The balance in this account at December 31, 2004 is \$132,035.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

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#### D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 3,482,996	\$ 1,294,995	\$ -	\$ 4,777,991
Capital assets being depreciated:				
Buildings & improvements	20,730,209	460,068	-	21,190,277
Machinery & equipment	11,108,414	597,154	(222,894)	11,482,674
Infrastructure	2,594,723	5,728,538	-	8,323,261
Total capital assets being depreciated	34,433,346	6,785,760	(222,894)	40,996,212
Less: Accumulated depreciation for:				
Buildings & improvements	3,352,177	474,599	-	3,826,776
Machinery & equipment	6,021,809	843,941	(228,702)	6,637,048
Infrastructure	23,859	85,854	-	109,713
Total accumulated depreciation	9,397,845	1,404,394	(228,702)	10,573,537
Net capital assets being depreciated	25,035,501	5,381,366	5,808	30,422,675
Governmental Activities Capital Assets, Net of Accumulated Depreciation	\$ 28,518,497	\$ 6,676,361	\$ 5,808	\$ 35,200,666

Under provisions of GASB 34 implementation of infrastructure assets prior to 2003 may be deferred until 2007, if necessary. The City of Franklin has elected to defer until, at least 2005, the inclusion of prior infrastructure assets. The implication of this decision is capital assets and investment in capital assets net of indebtedness are lower than what could otherwise be expected.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

#### D. CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

##### Governmental Activities

General government	\$ 231,870
Public safety	677,307
Public works	328,666
Health & human services	3,488
Culture & recreation	157,096
Conservation & development	<u>5,967</u>

Total governmental activities depreciation expense	\$ 1,404,394
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	Beginning Balance	Additions	Dispositions	Ending Balance
<b>Business-type Activities</b>				
Capital Assets not being depreciated:				
Land	\$ 426,384	\$ -	\$ -	\$ 426,384
Capital assets being depreciated:				
Buildings & improvements	1,248,910	1,132,043	(35,000)	2,345,953
Machinery & equipment	1,729,746	144,087	-	1,873,833
Infrastructure	<u>75,009,527</u>	<u>16,132,737</u>	<u>(1,543)</u>	<u>91,140,721</u>
Total capital assets being depreciated	<u>77,988,183</u>	<u>17,408,867</u>	<u>(36,543)</u>	<u>95,360,507</u>
Less: Accumulated depreciation for:				
Buildings & improvements	527,781	56,520	(35,000)	549,301
Machinery & equipment	910,342	111,271	-	1,021,613
Infrastructure	<u>10,552,055</u>	<u>2,263,335</u>	<u>(1,543)</u>	<u>12,813,847</u>
Total accumulated depreciation	<u>11,990,178</u>	<u>2,431,126</u>	<u>(36,543)</u>	<u>14,384,761</u>
Net capital assets being depreciated	<u>65,998,005</u>	<u>14,977,741</u>	<u>-</u>	<u>80,975,746</u>
Business-type Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 66,424,389</u>	<u>\$ 14,977,741</u>	<u>\$ -</u>	<u>\$ 81,402,130</u>

Depreciation expense was charged to functions as follows:

##### Business-Type Activities:

Water	\$ 578,708
Sewer	541,105
	\$ 1,119,813

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

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#### D. CAPITAL ASSETS (continued)

During 2004 the City reacquired Water Utility infrastructure assets at the expiration of a 30 year water service agreement. The capital assets were recorded at the original historical cost and accumulated depreciation was recorded for all periods prior to the current year.

#### E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The interfund receivables and payables at December 31, 2004 are as follows:

Receivable Fund	Payable Fund	Amount
Governmental funds:		
General	Water Utility	\$ 17,113
Capital Improvement	Water Utility	102,000
		<u>119,113</u>
Enterprise funds:		
Water Utility	General	63,053
	Sanitary Sewer	50,852
Sanitary Sewer	Water Utility	53,977
		<u>167,882</u>
Subtotal - Fund financial statements		286,995
Less: Government-wide eliminations		<u>230,935</u>
Total internal balances - Government-Wide		
Statement of Net Assets		<u>\$ 56,060</u>

The principal purpose of these interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. In all cases amounts are repaid within one year.

For the statement of net assets, interfund balances owed within the governmental activities or business – type activities are netted and eliminated.

#### INTERFUND TRANSFERS

Generally, transfers are used to (1) move revenue from the funds that collect them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund and (3) use unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**CITY OF FRANKLIN**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2004

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**NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)**

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**E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued)**

Transfers during the year ended December 31, 2004 were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Enterprise - Water Utility	\$ 634,462
Debt Service	Capital Projects - Development	337,199
Special Revenue - Library	General	40,073
Capital Projects Funds:		
Utility Improvement	Debt Service	22,026
Equipment Replacement	Special Revenue - Grants	3,341
	Special Revenue - Donations	2,025
Capital Improvements	Capital Projects - Street Improvement	328,000
	Capital Projects - Development	28,524
	Capital Projects - Utility Improvement	1,877,989
Enterprise - Water Utility	Capital Projects - Capital Improvement	18,548
	Capital Projects - Development	113,117
Enterprise - Sanitary Sewer	Capital Projects - Capital Improvement	2,136,442
Subtotal - Fund financial statements		<u>5,541,746</u>
Less: Government-wide eliminations		<u>3,908,101</u>
Total transfers - Government-wide Statement of Activities		<u>\$ 1,633,645</u>

**Component Unit Interfund Transactions**

Due to/from the primary government at December 31, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Community Development Authority		
TIF II Business Park		
Capital Projects Fund	Agency Fund - Property Tax	<u>\$ 2,925,386</u>

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

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#### F. LONG TERM OBLIGATIONS

Long-term liabilities for the year ended December 31, 2004 were as follows:

	Balance 12/31/03	Additions	Deletions	Balance 12/31/04	Amounts due within one year
<b>Governmental Activities</b>					
General obligation debt	<u>\$ 28,800,000</u>	<u>\$ -</u>	<u>\$ 4,000,000</u>	<u>\$ 24,800,000</u>	<u>\$ 1,350,000</u>
Compensated absences					
Accrued vacation pay	255,375	599,124	589,861	264,638	264,638
Accrued severance pay	745,849	101,820	40,213	807,456	31,870
Accrued compensatory time	<u>86,616</u>	<u>156,447</u>	<u>169,478</u>	<u>73,585</u>	<u>56,215</u>
Total compensated absences	<u>1,087,840</u>	<u>857,391</u>	<u>799,552</u>	<u>1,145,679</u>	<u>352,723</u>
Government activities					
Long-term liabilities	<u>\$ 29,887,840</u>	<u>\$ 857,391</u>	<u>\$ 4,799,552</u>	<u>\$ 25,945,679</u>	<u>\$ 1,702,723</u>
<b>Business-type Activities</b>					
General obligation debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Compensated absences					
Accrued vacation pay	29,715	33,965	30,283	33,397	33,397
Accrued severance pay	42,052	3,054	-	45,106	-
Accrued compensatory time	<u>486</u>	<u>5,881</u>	<u>5,288</u>	<u>1,079</u>	<u>1,079</u>
Total compensated absences	<u>72,253</u>	<u>42,900</u>	<u>35,571</u>	<u>79,582</u>	<u>34,476</u>
Business-type activities					
Long-term liabilities	<u>\$ 72,253</u>	<u>\$ 42,900</u>	<u>\$ 35,571</u>	<u>\$ 79,582</u>	<u>\$ 34,476</u>

#### General Obligation Debt

All general obligation notes and bonds payable are backed by the full faith and credit of the city. The notes and bonds will be retired by future property tax levies, special assessment collections and designated landfill revenue.

The City used available funds, to repay the remaining \$1,750,000 in maturities of the \$5,475,000 General Obligation Promissory Notes issued in 1996 at interest rates ranging from 4.0% to 5.0% on September 1, 2004, an early redemption call date.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

#### F. LONG TERM OBLIGATIONS (continued)

Details of general obligation notes and bonds payable are as follows:

Type	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance Outstanding 12/31
General obligation promissory notes						
	5/ 1/99	3.5-4.3	5/1/00-09	5/1&11/1	\$ 7,850,000	\$ 5,050,000
	5/15/01	4.25-4.60	3/ 1/02-11	3/1& 9/1	10,000,000	9,025,000
General obligation refunding bonds						
	9/ 1/96	4.0-5.1	9/1/97-07	3/1& 9/1	3,250,000	850,000
	4/15/01	4.3-5.40	3/ 1/02-21	3/1& 9/1	10,000,000	9,875,000
						<u>\$ 24,800,000</u>

Annual principal and interest payments to maturity on general obligation notes and bonds payable are as follows:

Year	Principal	Interest	Total	Balance Outstanding 12/31
2004				\$ 24,800,000
2005	\$ 1,350,000	\$ 1,123,504	\$ 2,473,504	23,450,000
2006	1,600,000	1,031,885	2,631,885	21,850,000
2007	2,550,000	955,198	3,505,198	19,300,000
2008	2,625,000	848,141	3,473,141	16,675,000
2009	2,650,000	732,085	3,382,085	14,025,000
2010 - 2014	6,055,000	2,438,851	8,493,851	7,970,000
2015 - 2019	4,930,000	1,412,238	6,342,238	3,040,000
2020 - 2021	3,040,000	153,260	3,193,260	-
	<u>\$ 24,800,000</u>	<u>\$ 8,695,162</u>	<u>\$ 33,495,162</u>	

The City's statutory debt limit and margin of indebtedness at December 31, 2004 are \$134,097,275 and \$109,297,275, respectively.



# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

#### F. LONG TERM OBLIGATIONS (continued)

##### CONDUIT DEBT OBLIGATIONS

Twelve series of Industrial Revenue Bonds originally issued with an aggregate principal amount of \$109,485,000 are outstanding with a December 31, 2004 balance of \$103,750,946. During the year one issue of \$4,500,000 was retired.

##### COMPONENT UNIT DEBT

##### Summary of Component Unit Long-Term Liabilities

General Long-Term liabilities for the Authority for the year ended December 31, 2004 are summarized below:

	Balance 12/31/03	Additions	Reductions	Balance 12/31/04	Amounts Due within one year
Lease revenue					
bonds payable	<u>\$ 22,270,000</u>	<u>\$ -</u>	<u>\$ 2,240,000</u>	<u>\$ 20,030,000</u>	<u>\$ 2,315,000</u>

The Authority issued Redevelopment Lease Revenue Bonds for the purpose of financing a loan from the Authority to the City to finance project costs associated with the City's Tax Incremental District II. The bonds are not general obligations of the Authority or the City, but are secured by the obligation of the City to make payments under a lease between the Authority and the City. The lease generally provides for payments by the City to the Authority in amounts equal to the principal and interest payments on the bonds on the dates such payments are due.

Type	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance 12/31
Redevelopment Lease Revenue Bonds						
	7/1/98	6.65-6.95	4/1/04-08	4/1&10/1	\$ 5,275,000	\$ 4,355,000
	7/1/98	3.90-5.20	4/1/99-13	4/1&10/1	18,145,000	<u>15,675,000</u>
						<u>\$ 20,030,000</u>

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

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#### F. LONG TERM OBLIGATIONS (continued)

##### COMPONENT UNIT DEBT (Continued)

Annual principal and interest payments to maturity on Redevelopment Lease Revenue Bonded Debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance 12/31</u>
2004				\$ 20,030,000
2005	\$ 2,315,000	\$ 996,836	\$ 3,311,836	17,715,000
2006	2,750,000	858,780	3,608,780	14,965,000
2007	2,820,000	705,335	3,525,335	12,145,000
2008	2,910,000	544,433	3,454,433	9,235,000
2009	1,715,000	420,960	2,135,960	7,520,000
2010 - 2013	7,520,000	771,030	8,291,030	-
	<u>\$ 20,030,000</u>	<u>\$ 4,297,374</u>	<u>\$ 24,327,374</u>	

#### G. NET ASSETS/FUND BALANCES

##### Governmental Activities

Government activities net assets reported on the government-wide statement of net assets at December 31, 2004 include the following:

Invested in capital assets, net of related debt	
Land	\$ 4,777,991
Other capital assets, net of accumulated depreciation	30,422,675
Less: related long term debt outstanding	(20,995,114)
Total invested in capital assets	<u>14,205,552</u>
Restricted for:	
Emergency medical services	11,261
Utility improvement	765,805
Development	2,743,066
Donations	77,629
Grants	58,654
Total restricted	<u>3,656,415</u>
Unrestricted	<u>8,953,745</u>
Total governmental activities net assets	<u>\$ 26,815,712</u>

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

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#### G. NET ASSETS/FUND BALANCES (continued)

##### Governmental Fund Balances

Governmental fund balances reported on the fund financial statements at December 31, 2004 include the following:

##### Reserved

###### Major funds:

General Fund - Inventories and prepaid items	\$ 28,928
General Fund - Encumbrances	103,000
Debt Service Fund - subsequent year debt service	126,566

###### Non Major funds:

###### Special Revenue Funds:

Library services	127,274
Emergency medical services	11,261
Donations	77,629
Grants	58,654

###### Capital Project Funds:

Encumbrances	16,000
Capital Improvement	81,000
Development	2,743,066
Utility improvement	765,805

Total reserved	<u>\$ 4,139,183</u>
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##### Unreserved:

###### Major Fund - General Fund

Designated for working capital	\$ 3,236,000
Designated for future expenditures	740,000
Undesignated	2,174,910
Total General Fund	<u>6,150,910</u>

###### Non Major funds:

###### Special Revenue funds

Designated for library services	108,621
Designated for economic development activities	59,727
Designated for civic celebration activities	15,731
Total Special Revenue funds	<u>184,079</u>

###### Capital project funds

Designated for Capital Outlay	97,459
Designated for Equipment Replacement	1,884,151
Designated for Capital Improvement	1,408,637
Designated for Street Improvement	290,041

Total Capital Project Funds	<u>3,680,288</u>
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Total Unreserved Funds	<u>\$ 10,015,277</u>
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# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

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#### H. DEFINED BENEFIT PENSION PLANS

##### Wisconsin Retirement System

All eligible protective City of Franklin employees participate in the Wisconsin Retirement System ("System"), a cost-sharing multiple-employer defined benefit public employee retirement system ("PERS"). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the general category are required by statute to contribute 5.6% of their salary (4.5% for protective occupations with social security, and 3.2% for protective occupations without social security) to the plan. Employers may make these contributions to the plan on behalf of the employees.

Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for employees covered by the System for the year ended December 31, 2004 was \$6,224,222; the employer's total payroll was \$11,287,256. The total required contribution paid entirely by the employer for the year ended December 31, 2004 was \$1,089,239 or 17.5% of covered payroll. Of the total required contribution, 100 percent was contributed for the current year. Total contributions for the years ended December 31, 2003 and 2002 were \$947,469 and \$898,351, respectively, equal to the required contributions for each year.

Protective employees who retire at or after age 53 with 25 years or more of service or age 54 with less than 25 years of service are entitled to receive retirement benefits. Protective employees may retire at age 50 and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service and (3) a formula factor. Final Average Earnings is the average of the protective employee's three highest years earnings. Protective employees terminating covered employment before becoming eligible for retirement benefits may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefits. For employees beginning participation after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested.

The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits is determined under Chapter 40 of the Wisconsin Statutes. The System issues an annual financial report that may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

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### **NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)**

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#### **H. DEFINED BENEFIT PENSION PLANS (continued)**

##### **Public Works Employees Pension Plan**

###### **PLAN DESCRIPTION**

The City is also a participant in the City of Franklin Public Works Employees' Pension Plan, a non-contributory single employer defined benefit pension plan covering eligible public works employees. The assets of this Plan are administered by Principal Life Insurance Company. An annual financial report may be obtained by writing to the plan administrator at Principal Financial Group, P.O. Box 9693, Des Moines, IA 50306-9396.

Employees attaining the age of 60 are entitled to annual benefits of 1.98% of average compensation multiplied by the number of complete years of service subsequent to January 1, 1956. Average compensation is defined as the monthly total pay plus salary deferrals, compensation and overtime received for the three consecutive years out of the ten latest years which gives the highest average. Employees may retire early and receive reduced benefits at age 55 with at least ten years of service.

Disability benefits equivalent to expected benefits at normal retirement date are paid until normal retirement date, death or recovery. If an active employee dies, his or her beneficiary receives a lump-sum cash payment equal to the participant's accumulation at date of death or an annuity benefit deferred until participant's earliest retirement date.

If an employee terminates his or her employment with the City, the employee has the option of accepting either normal retirement benefits at normal retirement date, or a lump-sum cash payment of participant's vested accumulations. An employee becomes 50% vested after five years of service and 100% vested after ten years.

Employees do not make pension contributions. The City contributes all amounts necessary to fund the pension plan, using the aggregate actuarial cost method.

###### **Funding Policy**

The City's funding policy is to provide yearly contributions at actuarially determined rates that, expressed as a percentage of covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

During the year ended December 31, 2004, contributions totaling \$204,665 were made in accordance with contribution requirements determined by an actuarial valuation of the pension plan as of January 1, 2004. Employer contributions represented 19.2% of current year covered payroll.

**CITY OF FRANKLIN**  
**NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

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**NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)**

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**H. DEFINED BENEFIT PENSION PLANS (continued)**

**ANNUAL PENSION COST**

For 2004, the City's annual pension cost of \$204,665 for the pension plan was equal to the City's required and actual contributions. The required contribution was determined during the January 1, 2004 actuarial valuation using the aggregate actuarial cost method. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions include: (a) a rate of return on the investment of present and future assets ranging from 5.0% to 7.0% compounded annually, (b) projected salary increases of 2.00% per year compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 1.88% to 5.10% per year, depending on age, attributable to seniority/merit. The assumptions did not include post retirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period.

**Three Year Trend Information**

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2004	\$ 204,665	100%	\$ -
12/31/2003	191,468	100%	-
12/31/2002	191,364	100%	-

<u>Actual Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Accrued Liability (AAL) - Aggregate</u>	<u>Unfunded AAL (UAAL) [(B)-(A)]</u>	<u>Funded Ratio [(A)/(B)]</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll [(C)/(E)]</u>
1/1/2004	\$ 2,563,079	\$ 2,563,079	-	100%	\$ 1,064,464	-%
1/1/2003	2,501,700	2,501,700	-	100%	990,311	-%
1/1/2002	2,157,178	2,157,178	-	100%	979,294	-%

There were no significant changes in actuarial assumptions during the valuation year ended January 1, 2004.

**I. DEFINED CONTRIBUTION PLAN**

Based on City ordinances all eligible City of Franklin non-protective employees (except public works employees) participate in the City of Franklin Defined Contribution Plan (the "Plan"). The Plan assets are administered by the Principal Life Insurance Company.

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

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### **NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)**

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#### **H. DEFINED CONTRIBUTION PLAN (continued)**

Employees after completing six months of service with the City are eligible to participate. The Plan requires the City to make an periodic contributions to each participant's account equal to 10% of such participant's annual compensation. Employees may but are not required to make contributions. A participant's accrued benefit for City contributions is 100% vested and nonforfeitable upon death, normal retirement, early retirement or permanent and total disability as defined in the Plan. If employment is terminated for any other reason, each participant's accrued benefit vests at various percentages, based on years of service. During 2004, the City made the required contribution amounting to \$310,282, or 10% of covered payroll and employees made \$4,551 in additional voluntary contributions to the plan. The City may make amendments to the Plan.

#### **I. POST RETIREMENT HEALTH CARE BENEFITS**

The City provides to longer term employees certain health care benefits at a reduced cost during the period from their normal retirement date until they reach age 65. The cost of this retiree health care benefit is recognized as expenditures when premiums are due. For 2004, 19 retired employees and their dependents received this benefit at a cost to the City of approximately \$101,379.

#### **J. CONTINGENCIES AND COMMITMENTS**

From time to time the City is party to various claims and legal proceedings. Although the outcome of such matters in not presently determinable, it is the opinion of City management and the City attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the City's financial position or results of operations.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

The City receives impact fees for new development projects. The fees are to be used to fund specific projects within a specific period of time. In the event the projects are not completed or the time period elapses, the City will be required to refund the impact fees to owners of property that the fees were originally charged.

The City has no material outstanding contractual commitments relating to various Public Works projects and equipment purchases at December 31, 2004.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

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#### J. CONTINGENCIES AND COMMITMENTS (continued)

Funding for the operating budget of the City comes from many sources, including property taxes, grants and aids from other units of government, user fees, fines and permits and other miscellaneous revenue. The State of Wisconsin provides a variety of aid and grant programs that benefit the City. Those aid and grant programs are dependent on continued approval and funding by the Wisconsin governor and legislature, through their budget process. The State of Wisconsin is currently experiencing budget problems and is considering numerous alternatives including reducing aid to local governments. Any changes made by the State to funding or eligibility of local aid programs could have a significant impact on the future operating results of the City.

#### K. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, natural disasters, and workers' compensation claims that the City carries commercial insurance. No significant reductions in insurance coverage occurred for any risk of loss in the past year, and settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The City also offers a group medical and dental insurance plan to employees for which the City is self-insured. This activity is accounted for in the City's Self Insurance Internal Service Fund. Group medical and dental costs are charged to City departments and retirees participating in the program. A third party administrator handles claims payments. The City carries stop loss insurance for losses in excess of \$50,000 per year per individual. Liabilities are reported when it is probable that loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported ("IBNR"). Changes in the balance of claims payable for the three years ended December 31, 2004 are as follows:

	<u>Balance Beginning of Year</u>	<u>Current Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance End of Year</u>
2004	\$ 294,500	\$ 2,248,233	\$ 2,183,233	\$ 359,500
2003	214,500	2,247,593	2,167,593	294,500
2002	204,500	1,503,914	1,493,914	214,500